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FINANCIAL MANAGEMENT SERVICE  
REQUEST FOR PROPOSAL  
FOR FINANCIAL MANAGEMENT SERVICES  
FOR THE  
BUREAU OF INDIAN AFFAIRS

APRIL 22, 1986

AIRA, 75-05-0590, Box 686  
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### III. OBJECTIVE

The objective of the proposed contract is to assist the Bureau of Indian Affairs in improving its financial management of the Indian trust funds. Specifically, the Financial Institution shall be responsible for enhancing the overall operation and management of the trust fund monies including the following services:

- A. Lockbox Services: Required lockbox services shall be supported by commercial banks within the Treasury Lockbox Network. Specific sites and volumes will be determined by performing a mail/collection study. The selected lockbox bank for this RFP will provide concentration services for these funds.
- B. Investment Management Services: This service will invest Indian trust fund monies as authorized by BIA in one or more portfolios with BIA determining the allocation of funds to the respective portfolios. BIA's allocations will reflect the investment preferences and cash requirements of the trust fund participants.

The Financial Institution will invest the trust fund monies prudently within applicable laws and regulations in pursuit of the investment objectives provided by the Bureau. BIA will approve the contractor's investment recommendations which the Financial Institution will then execute and settle. No "self-dealing" will be allowed.

- C. Custodial Services: This function is to provide accounting for receipts, payments, expenses, income; the status of accounts including physical custody of accounts; settlement of transactions; custody of securities; and customer services for the tribal and individual participants.

The Financial Institution will be selected from within the Treasury Lockbox Network. This bank will be directly responsible for providing the investment management and custodial services, described within, and also serve as the lead concentration bank for lockbox services.

In addition, full execution of this contract, specifically the investment management and custodial services, is dependent upon FMS providing disbursing authority to BIA. Currently, such disbursing is performed for BIA directly by FMS.

## I. EXECUTIVE SUMMARY

The U.S. Department of Interior, Bureau of Indian Affairs (BIA/the Bureau), currently manages \$1.7 billion in trust funds belonging to Indian tribes and individuals. As the trustee for these funds, BIA operations are in many ways similar to those of a commercial bank or mutual fund. It is responsible for:

- o Processing receipts;
- o Accounting for liabilities (deposits);
- o Making investments;
- o Accounting for trust assets;
- o Distributing earnings (and potentially losses);
- o Making disbursements; and
- o Performing investment custody functions.

The Bureau is comprised of 96 agency and field offices located throughout the United States. These agency offices are organized under 12 area offices and are supported by a headquarters staff in Washington, D.C. and Albuquerque, New Mexico.

The Bureau currently performs all financial management services in-house with assistance from the Department of Treasury. However, a recently completed study suggests private sector institutions are able to operate and manage the Bureau's functions in cash collection and concentration, investment management, and custodial services. As a result, the Assistant Secretary for Indian Affairs has determined that certain work associated with these tasks that can be contracted out will henceforth be contracted out. In view of this, the Bureau of Indian Affairs, U.S. Department of Interior now intends to award a single contract for a period of twelve (12) months with four (4) subsequent twelve (12) month performance periods. The option periods shall be exercised at the sole discretion of the Government.

The purpose of this contract is to provide BIA integrated external services, encompassing investment management, custodial services, and lockbox facilities, to collect and concentrate, invest, account for, and disburse Indian trust fund monies.

The following material briefly describes the current BIA systems and processes for collection, investment and disbursement of Indian trust fund monies. It includes information on the financial planning and accounts receivable functions, although these will not be contracted out under this procurement.

A. TRIBAL FINANCIAL PLANNING

a. Summary of Existing Process

Each tribe is responsible for its own financial planning. As a result, the tribal financial planning processes differs from tribe to tribe. There are no standard reporting formats or requirements.

As a result of this financial planning process, the communication of cash requirements and desired investment policy to the Investment branch of BIA is a cumbersome process which incorporates both manual and automated data. Also, the current nature of the planning process results in significant clerical follow-up related to the review and approval of requests for cash disbursements. Unexpected tribal cash requirements further complicate the investment process.

b. Summary of Eventual Process

Ultimately, the Bureau seeks to improve the financial planning process at the tribal level through the availability of automated budgeting and forecasting tools. Additionally, it will try to increase the tribes' involvement in the development of investment strategies and the review of investment performance. However, these goals are viewed as being longer term in nature.

Initially, the Bureau will ensure that the cash flow plans and investment program allocations of the tribal and individual participants are provided in sufficient specificity to guide the investment manager(s) as well as the custodian in their respective and joint activities.

B. ACCOUNTS RECEIVABLE/BILLING

a. Summary of Existing Process

There are two major sources of receivables within the Bureau:

- o Tribal/participant accounts receivable related to tribal and participant revenue sources.
- o Administrative accounts receivable related to the day-to-day operation of the Bureau.

Currently, there is no automated accounts receivable/billing system in the Bureau. Each agency maintains its own manual billing system. Because of the diverse nature of the tribes, their receivables may reflect such items as recurring lease payments or periodic lump sum royalties for natural resource depletion. Any lease documents or lease management activities associated with these tribal accounts receivable are the responsibility of tribal and agency personnel. Generally, any receivables disputes are resolved at the agency level.

Procedures associated with generating receivables differ between areas. Some agencies generate bills while others have included "no bill" provisions in their lease agreements. In some cases, manual tickler files are used to identify receivables due. The Bureau's administrative accounts receivables, which represent a less significant component of total accounts receivable, are prepared manually and recorded into the automated system for tracking.

b. Summary of Eventual Process

At some time in the future, the Bureau desires to implement a fully integrated accounts receivable system which will provide comprehensive capabilities for tribal and Bureau administrative receivables processing.

The accounts receivable system would directly interface with cash collection and concentration information and paperwork to improve the effectiveness of overall collections and management control. For the present purpose of developing proposals, respondents should assume that:

- o Tribal, participant and Bureau accounts receivable/billing activity will remain manual; and
- o Custodian correction of posting of cash receipts may be required after accounts receivable/receipts matching. Over the counter receipts will be sent directly to the Custodian, and account transfer information will be provided to the Custodian by BIA.

The collection and concentration banks will need to provide appropriate documentation to facilitate BIA and tribal application of payments against the accounts receivable file in a manual environment now and an automated system later.

C. CASH COLLECTION AND CONCENTRATION, AND CUSTODIAL SERVICES

1. Cash Collections and Disbursements

a. Summary of Existing Process

Cash collections are made at agency and field locations and the 12 area offices. Collections made at the agencies are forwarded to an area office for deposit and entry into the accounting system.

Because of the diverse nature of tribal revenues, the nature, magnitude and frequency of receipts to the Indian trust funds vary significantly among the Bureau's agency offices. The sources of revenues and the related forms of receipts are described in Section III (Background).

Disbursements of tribal funds are made in three ways; (1) transfer of tribal funds utilizing IIM subsystem with disbursements by agency-issued treasury check; (2) direct disbursements from the tribal fund through the Treasury's Regional Disbursing Office (RDO) by Treasury check; or (3) direct disbursement from the tribal fund by a transfer to another federal agency's Treasury account.

Withdrawals from supervised IIM accounts are approved by the Agency Superintendent and checks are prepared for the disbursements. Disbursements from participants' accounts may include interest earned and portions of the

principal for specific purposes as requested by the account holder or guardian.

The types of disbursements from the Tribal Trust and Individual Indian Monies funds are described in Section III (Background).

In the current environment, the Department of the Treasury plays the role of "lead" or "concentrator" bank for the management of trust fund assets. In addition, the Treasury provides consolidation and reconciliation services, interest bearing accounts for uninvested tribal funds, investment placement support, and disbursement services.

#### b. Summary of Requirements

The Bureau had desired to implement a fully integrated disbursement system to eliminate existing clerical routines and to fully automate management reporting and activity reconciliation. To accomplish these goals, the Bureau intended to:

- o Incorporate on-line balance reporting to provide a foundation for disbursement request approval and disbursement holds;
- o Automatically generate checks, transfers to accounts or transfers between funds as required by tribes and participants; and
- o Eliminate the need for manual recordkeeping and improve the Bureau's ability to control daily activity.

Under the contracted arrangements, the lockbox banks will collect and concentrate the funds received daily and will provide the funds together with accompanying summary information and deposit details to the Custodian to permit identification of intended investment portfolio and payee(s). Similar paperwork will be sent to BIA daily, also. The Bureau will be responsible for communication of disbursement directions to the Custodian but will require daily account summaries from the Custodian. Additionally, disbursement approval procedures will necessitate that the Custodian provide a list of intended disbursements daily for BIA approval prior to disbursement.

## 2. Investment Accounting

### a. Existing Process

The Bureau's current accounting system is the primary source of information supporting the trust fund accounting and investment functions. However, the accounting system is structured to support the accounting of appropriations and obligations rather than the requirements related to trust funds. Therefore, in order to provide information to support the investment function and meet internal requirements as well as the requirements of the Treasury and the Office of Management and Budget (OMB) for investment reporting, the Bureau has developed additional manual and automated systems.



b. Summary of Requirements

The Custodian's investment accounting will replace the Bureau's system, but must provide the information necessary for Bureau, Treasury and OMB requirements.

3. Investment Custody

a. Existing Process

The Branch of Investments is responsible for safeguarding documents evidencing ownership. As noted earlier, trust fund assets are invested primarily in U.S. Treasury securities and certificates of deposit. Consequently, the Branch's custodial responsibilities are limited to physical control of the certificates of deposit which are kept in a vault at the Central Office in Albuquerque. U.S. Treasury securities are maintained by U.S. Treasury safekeeping mechanisms. The Federal Reserve Bank of New York maintains custody of other Federal agency issues.

b. Requirement

The Custodian would assume this responsibility under BIA or Treasury oversight.

4. Deposit Accounting and Reporting

a. Summary of Existing Process

o Tribal/Participant Accounting

The existing process surrounding the maintenance of tribal and participant accounts does not adequately satisfy existing accounting and reporting requirements. The primary weaknesses surrounding the tribal/participant accounting function include:

- o The 250,000 tribal and participant accounts which comprise the IIM Fund are used as demand deposit accounts for the collection and recognition of revenues and the disbursement of income to tribal and participant entities.

However, few capabilities generally associated with standard demand deposit accounting systems are found in the IIM system.

- o The operating procedures surrounding the IIM Fund differ between the agency offices. These differences are a function of available banking resources, data processing capabilities and tribal preference.
- o Several automated and manual systems are employed in an effort to provide adequate accounting and control for tribal and participant accounts.
- o Accounting controls vary between offices and it is difficult to monitor daily activity.
- o The roles of the Bureau, tribal and agency personnel in the accounting process differ between locations.

The Branch of Trust Fund Accounting is responsible for maintaining the integrity of tribal and participant accounts. To accomplish this task the Branch works directly with the area and agency offices which are involved in the day-to-day operations of the accounting systems. The Branch also works closely with the Branch of Investments which requires up-to-date information regarding funds availability. A summary of the accounting systems is provided in Exhibit A-2, "Overview of Systems Supporting Accounting and Investment".

o Customer Service

The trust funds' existing customer service capabilities cannot meet the needs of tribal and participant entities. This is a result of:

- The lack of a unified accounting and reporting system -- current customer service capabilities reflect multiple manual and automated systems.
- The difficulty of reconciling reported and expected balances.
- Undefined responsibilities surrounding customer service functions -- currently account inquiries and disputes may be channeled through several offices before resolution is achieved.

In addition to not having adequate system resources to support customer service inquiries, agency and area personnel do not have access to timely data. Consequently, problem resolution requires research and extensive manual effort.

b. Summary of Requirements

The Bureau desires a state-of-the-art deposit accounting system which will streamline the payment recognition, reconciliation, disbursement and management reporting functions. An automated custodial service with appropriate modifications will provide the accounting, reporting, and customer service that are needed by BIA and account participants at present and will offer a basis for assumption of increasing responsibility by the participants. Respondents should note that automated systems must utilize computer hardware and software systems that are presently in use by the offeror. No new system is to be developed explicitly for this task. All systems should be as simple and inexpensive as possible, yet should be able to satisfy BIA management needs as well as the requirements of the investment manager and custodial staff.

D. INVESTMENT MANAGEMENT

1. Summary of Existing Process

a. Investment Decision Making

The area offices verbally notify the Branch of Investments of receipts greater than \$2,500. Smaller receipts appear on daily audit trail reports generated by the accounting system. Receipts received by wire are communicated to the Branch of Investments via a terminal located in the

Branch. The net receipts position is prepared using manual and automated data and the net funds available for investment are communicated to the Branch of Investments.

Funds available from maturing securities are reported to investment personnel through data available in the Branch's automated files. These special reports are generated several days before each investment cycle to provide an up-to-date profile of available funds by maturity date.

Investment and reinvestment decisions are based upon instructions from the tribes. Tribal cash requirements and investment preferences are communicated via internal memoranda and telephone conversations. Unless notified of specific cash requirements, the investment officers assume a reinvestment posture. The Bureau's default investment strategy of 30-day T-Bills is used in lieu of other investment instructions by the tribes.

Investment officers call financial institutions on a regular, pre-determined schedule to solicit bids on selected instruments. The officers place investments based on the availability of funds, bid rates and insurance exposure at each financial institution.

#### b. Investment Management

The Bureau's stated investment objective is to obtain the highest return available from authorized investments without exposing the Bureau to default risk. To accomplish this objective the Branch of Investments evaluates interest rates available on Treasury securities and certificates of deposit and matches available funds with current market rates. The Branch may also purchase government agency securities either directly or through a fiscal agent, but it has not done so in the recent past. The current investment options are described in Exhibit A-4.

Transaction and performance reporting for Indian trust funds is limited due to the manual and automated nature of the data and the investment management process. The information requirements of tribes and participants are not satisfied by current investment reports.

#### c. Investment Advisory

All investment decisions are made by personnel in the Branch of Investments. Their investment decisions are guided by the Bureau's regulations concerning the number and type of investments authorized for trust fund participation. Additionally, individual tribes may maintain their own investment preferences and instruct the Branch of Investments to make such investments on their behalf. As noted, existing investment performance reporting is limited.

### 2. Summary of Requirements

The Bureau desires to replace the existing internal investment management process except for the Federal Trustee role in decision-making with an external contract which encompasses the entire investment management activity and the attending lockbox and custodial services.